

## Single Family Housing Repair Loans and Grants

Single Family Housing Repair Loans and Grants help very low-income homeowners to repair, improve, or modernize homes

### BACKGROUND AND PURPOSE

The objective of the Single Family Housing Repair Loans and Grants program, also known as the Home Repair Program, is to help very low-income owner-occupants of modest single-family homes in rural areas repair those homes. Loan funds are available for repairs to improve or modernize a home, make it safer or more sanitary, or remove health and safety hazards. For homeowners age 62 years and older who cannot repay a loan, grant funds are available to remove health or safety hazards or to remodel dwellings to make them accessible to household members with disabilities.

Community banks may only package applications, not originate loans, but they can earn a fee for doing this. Any costs above fixed limits will not be reimbursed by USDA. Packaging fees that are not charged by a nonprofit or government entity cannot be folded into the loan.

### BORROWER CRITERIA

**Income limits:** The adjusted household income must not exceed 50 percent of the area median income (as defined by USDA).

**Credit:** Beneficiaries must be unable to obtain affordable credit elsewhere.

**First-time homebuyers:** These are repair loans and grants for existing homeowners only.

**Occupancy and ownership of other properties:** Borrowers/grantees must own and occupy the property and must be able to document ownership. Assistance is available to owner-occupants only. For manufactured homes, the home and site must be owned (or in a long-term lease) and occupied, and it must be on a permanent foundation. Home Repair funds may be used to put the manufactured home on a permanent foundation. A USDA Home Repair Loan or Grant may

PROGRAM NAME	Single Family Housing Repair Loans and Grants (Home Repair Program)
AGENCY	U.S. Department of Agriculture's Rural Housing Service
EXPIRATION DATE	Not Applicable
APPLICATIONS	No specific application is required
WEB LINK	<a href="https://www.rd.usda.gov/programs-services/single-family-housing-repair-loans-grants">https://www.rd.usda.gov/programs-services/single-family-housing-repair-loans-grants</a>
CONTACT INFORMATION	Contact your local RD office: <a href="http://www.rd.usda.gov/contact-us/state-offices">http://www.rd.usda.gov/contact-us/state-offices</a>
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	Rural areas as determined by <a href="http://eligibility.sc.egov.usda.gov">http://eligibility.sc.egov.usda.gov</a>

be made for a property that has income-producing land or structures, as long as the loan or grant is used to improve only the residential portion of the property.

**Special populations:** Borrowers age 62 years and older who are not able to repay a repair loan are eligible for grant funding. Veterans receive a processing preference.

**Special assistance for persons with disabilities:** Funds may be used to remove health and safety hazards, including outfitting the home for use by a person with a disability.

**Other:** Borrowers must meet citizenship or eligible noncitizen requirements.

## LOAN CRITERIA

**Loan limits:** Borrowers may obtain multiple USDA Home Repair loans, but the sum of the outstanding balance on all Home Repair loans cannot exceed \$20,000.

**Loan-to-value limits:** Up to 100 percent loan-to-value (LTV) ratio is allowed. If the total Home Repair loan indebtedness is \$7,500 or more, it must be secured by a mortgage on the property. USDA's Rural Housing Service (RHS) does not require a first-lien position, but the total of all debt secured by the property must not exceed the property's market value, except by the amount of any required contributions to an escrow account for taxes and insurance and the tax service fee. No security is required for loans below \$7,500 or grants.

**Adjustable-rate mortgages:** Only fixed-rate loans are allowed.

**Down payment sources:** Down payments are not required. If borrowers can repay part of the costs, they may be offered a loan and grant combination.

**Homeownership counseling:** Homeownership counseling is not required.

**Mortgage insurance:** Mortgage insurance is not required.

**Debt-to-income ratio:** The borrower's total housing payment including any existing mortgages must be no more than 41 percent of income.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are not applicable to this program.

**Costs:** The interest rate is fixed at 1 percent for a 20-year maximum term. Grants must be repaid if the property is sold in less than three years.

## POTENTIAL BENEFITS

This program can be a way to initiate banking relationships with borrowers for whom other financial services are not affordable.

Favorable consideration under the Community Reinvestment Act for serving low-income borrowers and communities with credit-related activities is available even when banks do not originate the loans, if the role as packager is explained and the numbers and characteristics of borrowers assisted is documented (it is helpful to include income and census tract information).

## POTENTIAL CHALLENGES

USDA Home Repair Loans and Grants are available in rural areas, which may not correspond to a bank's service area.

Decisions such as estimating the value of home repairs may be outside of the typical skill set of the bank.

Community banks may only package applications, not originate loans.

**Underwriting:** Home Repair loan/grant applications are underwritten by the RHS. Private lenders may assist prospective borrowers in fulfilling the application requirements. The following explains the program expectations and process:

- The Rural Housing Service Loan Originator will visit the property within 30 days of determination of eligibility to identify which repairs are essential.
- The borrower is provided detailed specifications that are used to solicit at least three bids when feasible. If there are not a sufficient number of contractors in the area, the local RHS office will review the bids that are obtained to ensure they meet the established specifications.
- The term of the loan is as short as possible based on the borrower's repayment ability. However, any loan made in conjunction with a grant is made for the full 20-year term to minimize the amount of grant funds required. If the loan amount is less than the maximum that the borrower could repay, the loan term should be shortened so that the borrower will pay the maximum amount he or she can afford each month during the term of the loan.
- Loans less than \$7,500 may be closed by the loan originator or designee. Loans of \$7,500 and greater must be closed by a closing agent.
- In order to ensure that borrowers do not receive more than the maximum allowable grant assistance of \$7,500, the loan originator will document the amount of any grant provided to each grantee.

**Grant limits:** Recipients may receive multiple grants, up to a lifetime maximum of \$7,500.

**Leverage opportunities:** When funding is available and a property's health and safety needs outstrip the borrower's ability to repay a loan, RHS may leverage Home Repair loan dollars with Home Repair grant dollars. Borrowers who demonstrate the ability to obtain a portion of the needed funds from outside sources (i.e., conventional lenders, housing authorities, and so on) should do so. Leveraged loans receive processing priority.

## ADDITIONAL INFORMATION

**Lender participation:** Community banks may charge a fee to act as a loan packager for interested customers, though the service is optional for borrowers. USDA supports partnerships with loan application packagers since packagers can promote the program in underserved areas, prescreen, and educate potential applicants to save USDA staff time, counsel potential applicants on how to improve their ability to qualify, and ensure that applications are complete.

Processing times vary depending on funding availability and program demand in the area in which an applicant is interested in buying and the completeness of the application package. Typically, applicant eligibility, loan approval, and loan closing may be accomplished within approximately 90 days of filing the written application. However, depending on the availability of government funding, this time frame may be extended. The applicant is periodically advised regarding the status of his or her application when there is a lack of funding.

**Funding:** The Home Repair program is subject to congressional appropriations. Typically, just under \$50 million is available annually between the loan and grant programs.

## Potential Benefits

- This program can be a way to initiate banking relationships with borrowers for whom other financial services are not affordable.
- Favorable consideration under the Community Reinvestment Act for serving low-income borrowers and communities with credit-related activities is available even when banks do not originate the loans, if the role as packager is explained and the numbers and characteristics of borrowers assisted is documented (it is helpful to include income and census tract information).
- Lenders can earn a fee by helping borrowers package their applications.
- No preapproval or training is required from the USDA.

## Potential Challenges

- USDA Home Repair Loans and Grants are available in rural areas, which may not correspond to a bank's service area.
- Decisions such as estimating the value of home repairs may be outside of the typical skill set of the bank.
- Community banks may only package applications, not originate loans.
- Depending on the needs in a bank's service area, funding may not be adequate to the need.

## SIMILAR PROGRAMS

- Fannie Mae HomeStyle® Renovation Mortgage
- Freddie Mac Construction Conversion and Renovation Mortgage
- FHA Property Improvement Loan Insurance

## RESOURCES

Direct access to the following web links can be found at <https://fdic.gov/mortgagelending>.

### Property rural status and eligibility

<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

### Requirements for loan packagers (page 460)

<https://www.rd.usda.gov/files/hb-1-3550.pdf>

**USDA income and property eligibility site:** Allows lenders to enter a property address to determine eligibility for USDA's loan programs.

<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>